

# South Africa's Growing Relations with Japan

By H.E. Mr. Christo C. Prins

South Africa's re-entry into the world economy after the dismantling of apartheid has not only led to a significant economic recovery, but has seen the establishment of a more stable economy after the vulnerability experienced during the last years of apartheid. The country's economy, the largest in Africa, is a successful blend of first and third worlds endowed with considerable natural resources and entrepreneurship. It is also well-versed in trading with Africa, a fact borne out by the multitude of joint ventures between South African companies and companies in Japan, the rest of Asia, Europe, and the United States.

This economic recovery has also created the first real investment opportunities in the last 15 years. This has led a number of Japanese corporations to announce investments and joint ventures in South Africa or technology transfers to South African companies. These include Mitsui and Nissan Diesel to manufacture commercial vehicles; Nittetsu Shoji in the production of ferrochrome; Mitsui also in the production of ferrochrome; Showa Denko in the production of low carbon ferrochrome and ferrosilichrome; Sony in the production of television sets; Itochu in the production of manganese and ferroalloy; Mitsubishi Corporation in the production of pick-up trucks; Mitsubishi and Matsushita in the production of granite; Sumitomo in the production of manganese; Marubeni in telecommunications products; and NEC in telecommunications. Toyota Motor Corporation, through its trading arm Toyota Tsusho, is also exporting cars from South Africa to other countries in Africa and the Middle and Near East.

## South Africa's growing market

Another factor that caught the attention of Japanese companies is the fact that as the economy grows, so will the income of the poorer, mainly black, segment of the consumer market with the

subsequent stimulation of the wholesale and retail trade, boosting the economy further and creating a larger market.

The Johannesburg Stock Exchange's Industrial Index, which surged by more than 60% in the past 18 months, is also an indication that the South African economy will grow faster in 1996. The sharp rise in share prices reflects foreign portfolio flows. Capital inflows are expected to continue in 1996 as a result of foreign investment, overseas borrowing and privatization. South Africa has already had several successful bond issues such as the \$750 million global bond issue in December 1994. From Japan a \$300 million government Samurai bond in May 1995, a \$200 million Eskom issue in October 1995 and a \$200 million Transnet Samurai bond issue in December 1995, were successful.

Shortly after the 1994 elections, the first Japanese economic missions were dispatched to South Africa to establish contact and create channels through which Japan could assist in South Africa's Reconstruction and Development Programme (RDP). The Japanese government consequently announced a \$1.3 billion aid package for South Africa in July 1994.

The Japan Federation of Economic Organizations (*Keidanren*) also dispatched fact-finding missions to South Africa. Two missions visited South Africa before the elections in April 1991 and May 1992 as well as one mission in November 1994, after Mr. Nelson Mandela was inaugurated as President.

In February 1995, the Japan Productivity Center dispatched a mission to South Africa.

In Japan, *Nihon Keizai Shimbun* sponsored an investment conference in Tokyo in October 1994. The conference was attended by Trade and Industry Minister Trevor Manuel accompanied by a senior delegation of bankers, corporate executives, the Chairman of the Johannesburg Stock Exchange, and



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black businessmen. The conference enjoyed wide support from the Japanese business sector.

Other missions to South Africa included those by the Long-Term Credit Bank in 1995 (Report: South Africa on the Road to Recovery); and the Bank of Tokyo in 1995 (Report: The Investment Climate of the New South Africa). The Japan Institute for Overseas Investment dispatched a mission to South Africa in September 1995 to study the South African economy.

## Official Development Assistance

Japan extended a generous Official Development Assistance (ODA) package to South Africa initially totalling US\$1.3 billion; i.e., soft loans worth \$250 million were extended through the OECF; grant aid worth \$30 million through Japan International Cooperation Agency (JICA); technical assistance and grants worth \$20 million through JICA; a loan amount of \$500 million through the Export-Import Bank of Japan to be extended to South African parastatals; and \$500 million in Japanese government trade and investment guarantees to cover Japanese private-sector trade and investment loans.

However, Japanese involvement in South Africa is still relatively small, especially if we look at the presence in

South Africa of more than 170 German companies, 206 U.S. companies, 170 from the United Kingdom and almost 100 French companies.

## South Africa and the rest of Africa

Growth in South African exports to Africa averaged 55% since the 1994 elections. In 1987 South Africa exported \$456 million in goods to Africa compared to \$6.3 billion in 1994. Japanese companies have also seen the advantage of using the expertise of South African companies which have already established a presence in the rest of Africa. For South Africans Africa is closer than other destinations, has a more familiar business environment and is often seen as a natural extension of the South African market. For Japanese companies South Africa can function as a gateway to the rest of Africa, not only in terms of trade but also of investment. Multinationals are increasingly viewing South Africa in this light, and some have formed joint ventures with domestic companies so as to make use of their expertise in operating both locally and elsewhere on the continent; i.e., Sony, Nissan Diesel and Konoike Construction (planned for April 1996). A number have already moved their African headquarters to Johannesburg, while others have handed control of their sub-Saharan activities to their South African subsidiary. For certain corporations, opening a South African office is a first tentative step in testing the African market.

## Bilateral Trade

Trade between Japan and South Africa has posted steady growth (see chart). South Africa was the 26th largest

export destination for Japan in 1994 and the 23rd largest exporter to Japan. In an effort to considerably expand bilateral trade, Tokyo, on April 1, 1995, included South Africa as a "developing country" beneficiary under Japan's General System of Preferences (GSP).

A breakdown of the major items involved in Japanese-South African trade looks like this: general machinery, 26.5% of the total; auto parts, 24.1%; electrical appliances, 13.2%; and cars, 13.0%. Cars and car parts form the largest export category. Imports are dominated by primary goods of mining and agriculture: metal goods, 33.4%; food, 16.1%; coal, 11.4%; metal raw materials, 11.3%; and gold (non-coin), 10.3%. Particularly important for Japan are imports of rare metals such as platinum, manganese, and chromium. South Africa imported mainly vehicles and spare parts, machinery, electrical products and specialized chemicals from Japan, while Japan imports mainly precious stones, metals, iron and steel, mineral fuels, oils, ores, slag and ash from South Africa.

## Investment

South African economists agree that the current economic upswing has to a large extent been led by investment. Since early 1993, real gross domestic fixed investment (GDFI) has increased by 15.5%, whereas real gross domestic product has only expanded by 6.7%. For the three year period ending March 1995, private-sector fixed investment rose by 44%, public corporations by 15%, and central-government investment by only 4.5%.

The manufacturing and commercial sectors of the economy have dominated the present investment cycle, increasing by some 50% since the end of 1992,

whereas capital spending on infrastructure has risen by 14% and mining by only 4% over the same period. It is also estimated that at least 8% (¥300 billion) of South Africa's 1995-96 budget of ¥3,780 billion will be for capital expenditure. This should encourage the country's private sector to become involved in capital projects which will in turn contribute to economic growth.

Add to that official development assistance (ODA) worth ¥319 billion over the next three years and projects worth ¥1,734 billion in the mining, manufacturing and infrastructure sectors, and an idea will be gained of the positive effect these will have on the economy.

## Conclusion

The New South Africa has achieved much so far that Japanese companies should take notice of. To the country's credit successful elections for local government were held in November 1995; a marked improvement in consumer and business confidence has been manifested; a significant acceleration in general economic activity and a concomitant increase in company profits resulted, inter alia thanks to improved productivity; fixed investment recovered strongly; and the inflation rate dropped to the lowest level in more than two decades. Furthermore, the scrapping of the financial rand did not have any real negative results for the financial markets; and, a considerable net inflow of foreign capital occurred—more than enough to finance the deficit on the current account of the balance of payments. ■

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## Trade between Japan and South Africa

Unit: ¥1 billion

Calendar Year	Exports from Japan	Imports to Japan
1992	218	243
1993	223	211
1994	207	225
1995*	120	109

\*1995 figures for January-June

## South Africa on the Internet

The Japan-South Africa Network or "JASANet" has been established on the Internet to enhance co-operation between Japan and South Africa in the fields of business and commerce, tourism and travel, science and technology, arts and culture and information in general. JASANet's web address is:

<http://sunsite.sut.ac.jp/embassy/jasanet>